

Opening Statement  
The Honorable Richard H. Baker, Chairman  
House Financial Services Committee Subcommittee on  
Capital Markets, Insurance and Government Sponsored Enterprises  
Hearing, July 11, 2001  
“Reforming Fannie Mae and Freddie Mac”

I want to thank all of the witnesses appearing before the subcommittee today. We will hear from each of them their specific thoughts on legislative reform for Fannie Mae and Freddie Mac. But of more immediate concern is for them, particularly Fannie and Freddie, to comment on the recent study by the Congressional Budget Office (CBO), which reported that of the \$10.6 billion annual federal subsidy they receive, the two companies and their shareholders retain for themselves an astounding \$3.9 billion.

I hope that all members of the subcommittee, particularly those with strong concerns for the homeownership gaps among Hispanics, African-Americans, and lower-income Americans, would seriously consider the enormity of this retained portion of the subsidy. Rather than killing the messengers, be it their “methodology” or their “motive,” consider the message: think about how much good this \$3.9 billion could do for the lives of your constituents desperately in need of homeownership opportunities to be opened for them.

Congress helped create the subsidy so that the whole of it would pass through to assist these traditionally underserved homebuyers, not to be divvied up for the sake of doubling the annual profits of the government-sponsored middlemen. The main point we should be debating, I believe, is what kind of bipartisan reforms we can adopt to ensure that as close to 100 percent as possible of the subsidy passes through to the people its meant for.

Over the last several weeks I have been intrigued to consider an almost unanimously agreed upon solution in reports and commentary I instructed my staff to explore. Last month the Federal Reserve released a paper showing, in short, that Fannie and Freddie lower mortgage rates and hence benefit homebuyers only to the extent that they act competitively. Further, in the CBO’s defense of their subsidy study, they also conclude that the percentage of the subsidy Fannie and Freddie pass through to homebuyers is directly related to the extent to which they compete against each other.

These commentaries led us to take a second look at a letter Chairman Greenspan sent last year. And it turns out he also expresses the notion that one of the main factors contributing to how well the subsidy helps lower mortgage rates is determined by the GSEs themselves and how intensely they compete with one another.

I ask members to consider, with genuine agreement that we are not trying to take anyone down but instead want good policy on our side to help more people. *If we all agree on the point that what the housing GSEs do is important and valuable, why not create more of them?* Both the Federal Reserve and CBO, while not advocating any policy, seem to be suggesting that Fannie and Freddie would perform even better if faced with real

competition.

I have to confess that I am not yet fully sold on this idea because of my concerns about how it might help solve safety and soundness problems and the growing threat of taxpayer risk. On the other hand, I am willing to consider that the purely regulatory route may not be ambitious enough in scope, and there may be creative alternatives that help us address the whole host of issues surrounding the GSEs. I assume a certain amount of openness for entertaining market-oriented competition solutions from my Republican colleagues. But I would particularly invite, on the other side of the aisle, ranking member Kanjorski and perhaps members of the Congressional Black and Hispanic Caucuses, to work with me to see how this concept of enhancing secondary-mortgage-market competition could help address their concerns for the various homeownership gaps.

We will hear today from a Democrat former Treasury official who will discuss problems he has discovered with the housing GSEs' mission and safety and soundness. We will also hear from a Democrat who on behalf of Fannie's and Freddie's competitors will tell us about further problems the GSEs seem to have in channeling even that portion of the subsidy that passes through to mission-targeted homebuyers.

Both of these witnesses attest to the reality that GSE reform can be a bipartisan issue. In fact, I was led to ask their presence here today to see, in the context of discussing H.R. 1409, whether the bill meets the standards of another Democrat former administration official, Mr. Frank Raines, who before this subcommittee last year posed the following four questions as a litmus test for good legislation:

1) Does it reduce costs for consumers? 2) Does it improve the safety and soundness of the housing finance system? 3) Does it expand opportunities for homeownership? 4) Does it allow innovation in the market without cumbersome regulatory requirements?

The CBO report demonstrates that all four of these goals do in fact need improving. To the extent that my bill may focus too strongly on the safety-and-soundness point, while additional creative remedies like the increased competition concept may help address the other three, I am open for discussion. Indeed, over the coming months I will be seeking opinion about these matters from many people, including the current administration.

These matters are too important, the opportunities too great, for us to remain silent while faced with the need for real reform, and I for one will be continuing this effort for as long as it takes to bring about the best possible public policy for American homeowners and taxpayers.